

ORDER NO. 3621

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton; and
Tony Hammond

Periodic Reporting
(Proposal Two)

Docket No. RM2016-10

ORDER APPROVING ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING (PROPOSAL TWO)

(Issued November 17, 2016)

I. INTRODUCTION

On August 22, 2016, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11, requesting that the Commission initiate a rulemaking proceeding to consider a proposal (Proposal Two) to change analytical principles relating to the Postal Service's periodic reporting.¹ For the reasons discussed below, the Commission approves Proposal Two.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), August 22, 2016 (Petition). Proposal Two is attached to the Petition.

II. PROCEDURAL HISTORY

On August 22, 2016, the Postal Service petitioned the Commission to initiate a rulemaking proceeding to consider Proposal Two, which relates to the treatment of carrier costs within the International Cost and Revenue Analysis (ICRA) Report. Petition at 1. In particular, the Postal Service proposes to align the ICRA methodology with the Cost and Revenue Analysis (CRA) methodology used for developing delivery costs. *Id.* Proposal Two at 1. ICRA material in support of Proposal Two was filed under seal.²

On August 25, 2016, the Commission issued a notice initiating this proceeding, providing for the submission of comments, and appointing a Public Representative.³ The Public Representative filed a motion for information request pursuant to 39 C.F.R. § 3001.21(a) and 39 C.F.R. § 3007.3(c) on August 31, 2016.⁴ Chairman's Information Request No. 1 was issued two days later.⁵ On September 8, 2016, the Postal Service responded to CHIR No. 1.⁶ The Public Representative filed comments regarding Proposal Two on October 11, 2016, in response to Order No. 3484.⁷ No additional comments were received. Chairman's Information Request No. 2 was issued on October 26, 2016, to which the Postal Service responded two days later.⁸

² Notice of Filing of USPS-RM2016-10/NP1 and Application for Nonpublic Treatment, August 22, 2016.

³ Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Two), August 25, 2016 (Order No. 3484).

⁴ Public Representative Motion for Issuance of Information Request, August 31, 2016.

⁵ Chairman's Information Request No. 1, September 2, 2016 (CHIR No. 1).

⁶ Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 1, September 8, 2016.

⁷ Public Representative Comments, October 11, 2016 (PR Comments).

⁸ Chairman's Information Request No. 2, October 26, 2016 (CHIR No. 2); Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 2, October 28, 2016. See *also* Notice of Filing of USPS-RM2016-10/NP2 and Application for Nonpublic Treatment, October 28, 2016.

On September 23, 2016, United Parcel Service, Inc. (UPS) filed a motion to access the non-public filings in this proceeding.⁹ The Postal Service, joined by Canada Post Corporation, responded in opposition to this request five days later.¹⁰ The Commission issued an order granting access to UPS, conditioned on the filing of an executed agreement regarding inadvertent disclosure within five business days from the order.¹¹ Alternatively, the Commission ordered a status report on the negotiations if an agreement could not be reached. Order No. 3650 at 5.

After a couple status reports, the Postal Service motioned for clarification of Order No. 3650, presenting its version of the proposed agreement, as did UPS in response to the Postal Service.¹² In response, the Commission ordered UPS to either accept the Postal Service's version of the agreement or request that the Postal Service modify the non-public material to aggregate and mask mailer-specific data.¹³ UPS requested that the Postal Service modify the non-public material.¹⁴ The Postal Service filed aggregated ICRA material on November 7, 2016.¹⁵

⁹ United Parcel Service Inc.'s Motion for Access, September 23, 2016.

¹⁰ Response of United States Postal Service to United Parcel Service Inc.'s Motion for Access, September 28, 2016. UPS filed a response to the Postal Service stylized as a Motion for Leave that identify reasons UPS should be granted access to the materials. United Parcel Service, Inc.'s Motion for Leave to File a Response to the Postal Service's Opposition to UPS's Motion for Access, September 30, 2016. Canada Post filed a letter with the Commission to specifically identify its concerns with access to its non-public information. See Canada Post Corporation Submission, October 11, 2016.

¹¹ Order Granting Motion for Access to Non-Public Materials Filed Under Seal, October 11, 2016 (Order No. 3560).

¹² United States Postal Service's Motion for Clarification of Postal Regulatory Commission's Order Granting Access to Non-Public Materials Filed Under Seal, October 24, 2016 and United Parcel Service, Inc.'s Response to the United States Postal Service's Motion for Clarification of Postal Regulatory Commission's Order Granting Access to Non-Public Materials Filed Under Seal, October 25, 2016.

¹³ Order Regarding the Postal Service's Motion for Clarification of Order No. 3560, October 28, 2016 (Order No. 3596).

¹⁴ Notice by United Parcel Service, Inc. in Response to Order No. 3596, October 31, 2016.

¹⁵ Notice of Filing of USPS-RM-2016-10/NP3 and Application for Nonpublic Treatment, November 7 2016.

III. BACKGROUND

Domestic mail costs are developed through the CRA Report, and international mail costs are developed through the ICRA Report. Presently, the city carrier and rural carrier costs for international and domestic mail are developed in different ways. These differences appear in four elements: City Carrier Letter Routes, City Carrier Special Purpose Routes, City Carrier Support Costs, and Rural Carrier Distribution Keys. Petition, Proposal Two at 1.

During Fiscal Year (FY) 2015, the Postal Service began to develop city carrier letter route street costs using eight separate cost pools and distributed these costs to products based on proportions from the City Carrier Cost System (CCCS).¹⁶ This methodology, however, only applies to the CRA. Petition, Proposal Two at 1. The ICRA only aggregates two cost pools, letter routes and special purpose routes (SPRs), and distributes these costs using CCCS proportions. *Id.* at 1-2.

The CRA develops SPR costs using four separate cost pools, distributing these costs using the City Carrier Cost System-Special Purpose Routes (CCCS-SPR). In contrast, the ICRA aggregates letter route and SPR costs and distributes them using the CCCS. *Id.* at 2. Additionally, the distribution keys for collection costs are different—the CRA uses the CCCS, and the ICRA uses Revenue, Pieces, and Weight (RPW) proportions. *Id.*

The CRA distributes support costs using direct labor distributions and develops distribution keys for all SPR and letter route costs. *Id.* In contrast, the ICRA distributes support costs based on the distribution keys developed in the CRA. *Id.* at 2-3.

The CRA distribution key for Rural Carrier Accountables mail (mail which requires a signature) distributes the costs of Accountables mail to its own line item. In contrast, the ICRA distribution key distributes these pieces to the base class, resulting in Inbound Registered Mail being classified as Inbound Letter Post. *Id.* at 3.

¹⁶ *Id.* The composition of the cost pools and their calculation methodology were described in Docket No. RM2015-7 and approved in Order No. 2792. See Docket No. RM2015-7, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Thirteen), October 29, 2015 (Order No. 2792).

Additionally, the ICRA does not include pre-paid parcels greater than two pounds in its Rural Carrier Pickup distribution key, as the CRA does. *Id.*

IV. PROPOSAL TWO

Under Proposal Two, the Postal Service seeks to align costing procedures in the ICRA with the procedures in the CRA. This alignment would occur in three elements in Cost Segment 7, City Carrier Street Activity, and in one element in Cost Segment 10, Rural Carriers. The affected elements are City Carrier Letter Routes, City Carrier Special Purpose Routes, City Carrier Support Costs, and Rural Carrier Distribution Keys. *Id.* at 4-5.

Under Proposal Two, the City Carrier Letter Route Costs in the ICRA would be developed from the eight cost pools currently used in the CRA. *Id.* at 4. In addition, SPR costs in the ICRA would be developed from the four cost pools currently used in the CRA. *Id.* The distribution keys for collection costs would also be aligned, so the ICRA would use CCCS rather than RPW. *Id.* at 5.

The Postal Service also proposes that support costs in the ICRA be distributed based on their direct costs, as they are in the CRA. *Id.* Additionally, Rural Carrier Accountables mail costs would be distributed in the ICRA as they are in the CRA. This change, combined with the adoption of the methodology discussed above for Cost Segment 7, results in the costs of Inbound Registered Mail being reported separately from Inbound Letter Post. The ICRA would also include pre-paid parcels above two pounds in its Rural Carrier Pickup distribution key. *Id.*

V. COMMENTS

The Public Representative filed comments on October 11, 2016. Based on his review of Proposal Two, the Public Representative finds that the Petition is conceptually sound, but he is unable to support the proposal. PR Comments at 1. He explains that several supporting files were not included with the non-public material and he is unable to verify the accuracy of the Petition without these files. *Id.* at 2-3. In addition, the

Public Representative states that the proposed changes in analytical principles result in a reduction of unit attributable competitive product costs, which is in alignment with the Postal Service's goals of "maximizing net revenues competitive products and possibly international market dominant products." *Id.* at 3. He explains that the cost-weighted average percentage change in unit costs, excluding Special Services, is negative, even though the impact file provided with the Petition shows that some international products will experience increased unit costs. *Id.* The Public Representative states that the Postal Service can "test possible changes and cherry-pick those which serve the above-mentioned goals" because the Postal Service is the only party with unrestricted access to competitive and international costs.¹⁷ *Id.* at 3-4. Thus, he concludes that he is unable to support the proposed modification of analytical principles. *Id.* at 4.

VI. COMMISSION ANALYSIS

Based upon a review of the Postal Service's filing, supporting workpapers, and the Public Representative's comments, the Commission finds that Proposal Two improves the quality of the Postal Service's analysis by aligning the approach to calculate city carrier and rural carrier costs contained in the ICRA Report with the CRA and aligning the approach with the methodology approved by the Commission in Order No. 2792.¹⁸

This proposal brings to the ICRA the same detailed level of disaggregation the CRA currently possesses in City Carrier and Rural Carrier delivery. Doing so leads to a fuller understanding of the costs for International mail and more accurately attributes them. This is particularly notable for Inbound Letter Post and Registered Mail, as the

¹⁷ The Public Representative also urges the Commission to quickly approve motions for access to confidential materials from other parties and he notes a pending motion for access in this docket. PR Comments at 4. The Commission issued an order regarding that motion on the same day that the Public Representative filed his comments. See Order No. 3560, Order Granting Motion for Access to Non-Public Materials Filed Under Seal, October 11, 2016.

¹⁸ In making this finding, the Commission relies upon the revised library reference that includes aggregated and masked mailer-specific data, and not the originally submitted workpapers. See Order No. 3596 at 3-4.

proposal disaggregates those costs into their respective products, rather than grouping them together as Inbound Letter Post.

Proposal Two aligns the ICRA with existing CRA methodology for the city carrier street delivery costs in Cost Segment 7. Aggregate accrued city carrier costs from the Postal Service's Statement of Revenue and Expenses are separated between office activities and street activities based on proportion of time spent by the carrier in each activity as determined by the In-Office Cost System (IOCS).¹⁹

Accrued city carrier street delivery cost pools are further disaggregated into components for letter routes and for SPRs. Cost pools for letter routes are formed by multiplying the respective cost pool proportion²⁰ by the accrued street letter route cost determined by the IOCS. For SPRs, the street time proportions are developed from a special study of SPR activities that includes information on in-receptacle parcels, deviation parcels, and accountables.²¹

Delivery activities (such as servicing customers, deviations for large parcels and accountables, collecting mail from customers and collection points, etc.) vary with the volume of mail and collections. The volume variable portions of letter routes and SPRs are determined by separate econometric analyses.²²

On letter routes and collection activities on SPRs, volume variable costs are distributed to products on proportions from the CCCS.²³ Volume variable costs for

¹⁹ Summary Description of USPS Development of Costs by Segment and Components, Fiscal Year 2015, July 6, 2016 (Summary Description).

²⁰ These cost pools are regular delivery, in-receptacle parcel delivery, deviation parcel and accountable delivery, general collections, priority mail express collections, travel to/from route, relays, and network travel. Petition at 2.

²¹ See Docket No. R97-1, Direct Testimony of Michael A. Nelson on Behalf of the United States Postal Service, July 10, 1997 (USPS-T-19).

²² See Docket No. RM2015-7, Order No. 2792. For further information on SPRs, see Docket No. R97-1, USPS-T-19.

²³ Volume variable costs of Periodicals are disaggregated to In-County Periodicals and Outside County Periodicals based on proportions from RPW. Summary Description, Cost Segment 7.

delivery activities for SPRs are distributed to products on proportions from the CCCS-SPR.

Institutional costs related to Priority Mail Express Collection boxes are specific to the Priority Mail Express product. Network travel (time traveling between delivery sections) does not change with volume and is treated as institutional costs on both letter routes and SPRs.

Proposal Two also aligns the ICRA with existing CRA distribution keys for rural delivery in Cost Segment 10. Accrued labor costs are disaggregated into evaluated route costs and other route costs using information from payroll records. Volume variable costs for rural carrier labor are determined from a variability analysis developed using the National Mail Count. In this study, carrier workload is categorized by cost drivers defined by various carrier activities that are evaluated in time per unit. Each cost driver is classified as variable or institutional based on whether or not it changes with volume. Total evaluated time is separated into cost pools by multiplying the related cost driver by the related amount of time. Volume variable costs are then calculated by multiplying the total accrued costs by the ratio of the evaluated time of the variable cost drivers to the total evaluated time. The resulting volume variable costs are distributed to products using annual proportions estimated by the Rural Carrier Cost System.²⁴

In response to the Public Representative's concerns regarding the accuracy of the implementation, the Commission requested additional workpapers related to the proposal. See CHIR No. 2. The Commission has reviewed these additional workpapers and verified the accuracy of the implementation. Furthermore, contrary to the Public Representative's assertion that this proposal reduces unit attributable competitive product costs,²⁵ the workpapers of this proposal demonstrate that only one competitive product would experience a decrease in unit attributable costs. Every other

²⁴ Summary Description, Cost Segment 10.

²⁵ See PR Comments at 2.

competitive product would experience either an increase in unit attributable costs or no change at all.

For these reasons, the Commission finds that Proposal Two improves the quality of the Postal Service's analysis in three ways: (1) it aligns the ICRA costing methodology with the CRA, providing consistency; (2) it applies the detailed cost pools approved in Docket No. RM2015-7 to the ICRA; and (3) it more accurately reports Registry and Inbound Letter Post costs. Therefore, The Commission approves Proposal Two.

VII. ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Two are approved.

By the Commission.

Stacy L. Ruble
Secretary